

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. # Ranking Democratic Member

214 O'Neill HOB # Washington, DC 20515 # 202-226-7200 # www.house.gov/budget_democrats

March 13, 2001

Dear Democratic Colleague:

Attached is a new report just completed by the Democratic staff of the House Budget Committee, "Stealth Budget: The Real Cuts in the Bush Plan." The President's budget outline provides noticeably few details on the subject of the program reductions required to pay for his large tax cut. Nevertheless, this report highlights the true impact of his budget on crucial government services.

The Bush plan requires cutting funding from agencies that protect our nation's farmers, workers, and small businesses. The report's analysis shows that in order to pay for the President's oversized tax cut:

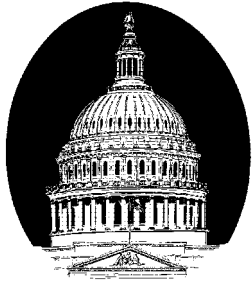
- the budget cuts appropriated programs at non-protected agencies by an average of 6.6 percent below the amount CBO estimates is needed to maintain purchasing power at the 2001 level;
- the budget cuts funding for appropriated programs below current purchasing power in the Agriculture Department by 8.6 percent; in the Department of Housing and Urban Development by 11.3 percent; in the Department of Justice by 8.8 percent; in the Department of Labor by 7.4 percent; in the Army Corps of Engineers by 16.9 percent; in the Environmental Protection Agency by 9.4 percent; and in the Small Business Administration by 46.4 percent.

The Bush budget provides few details about how the Administration will translate these agency cuts into cuts to particular programs. Indeed, on page 188 of the budget blueprint, a footnote indicates that for more than \$20 billion in cuts "[t]he final distribution of offsets has yet to be determined." Administration officials have declined to furnish many details of these reductions in testimony before Congress. Nevertheless, the report is able to identify numerous troubling cuts, including in programs for agricultural assistance, school renovation, housing, and the enforcement of civil rights laws. The cuts detailed in the report are just a sampling of the kinds of specific reductions that can be expected when the more detailed Bush budget is released in April.

We will continue to provide you with updated analyses of the budget situation. In the meantime, please feel free to call me or the Budget Committee's Democratic staff if you have any questions.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member



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Stealth Budget:

The Real Cuts in the Bush Plan

John M. Spratt, Jr.
Ranking Member

This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and may not necessarily reflect the views of all members.

Despite the Bush administration's claims that its budget plan adequately funds our nation's priorities, the budget blueprint released in February clearly reveals that the size of the proposed tax cut would require significant cuts to crucial government services. These cuts diminish our ability to protect the environment, respond to natural disasters, and address our nation's energy and housing challenges. Even the Republican chairman of the Senate Budget Committee has publicly faulted the Bush budget when he stated, "Some functions of government just can't take as big a cut as they're [the Bush Administration] talking about." The Senate Budget Committee chairman is absolutely right. This report is designed to spotlight the very troubling cuts in the Bush budget for key services.

The Bush Tax Plan Means Large Cuts to Major Agencies — The President's budget cuts non-defense discretionary programs \$5.9 billion below the level CBO estimates is needed to maintain purchasing power at the 2001 level. The cut required of some agencies is more than a proportional share of this reduction, because the budget maintains or increases funding for some protected agencies, such as Education and Health and Human Services. As a result, the average cut to the non-protected agencies in the President's budget is 6.6 percent.

The numbers in the accompanying table refute the President's claim that his tax cut does not come at the expense of important national priorities. The tax cut requires cutting funding from agencies that protect our nation's farmers, workers, and small businesses.

The Bush Tax Plan Means Troublesome Cuts to Important Programs — The Bush budget blueprint provides few details about how the Administration will translate these agency cuts into cuts to particular programs. This huge silence is filled only by a small footnote on page 188 of the Bush budget blueprint stating that for more than \$20 billion of cuts "[t]he final distribution of offsets has yet to be determined." This footnote is reminiscent of the infamous "magic asterisk" in the 1981 Reagan budget. In recent Congressional testimony, Bush administration officials have declined to furnish these important specifics.

Under these circumstances, this report cannot encompass the full range of programs that, in the end, will have to be cut to pay for the Bush tax plan. Indeed, there is cause for considerable worry about the cuts that are not specified in the budget blueprint. But, even the minimal details provided by the budget document make clear that the following programs will be cut:

BUDGET CUTS TO NON-PROTECTED AGENCIES	
<u>Agency</u>	<u>Percentage Cut</u>
Agriculture	-8.6
Commerce	-16.6
Energy	-6.8
HUD	-11.3
Interior	-7.0
Justice	-8.8
Labor	-7.4
Transportation	-15.0
Army Corps of Engineers	-16.9
EPA	-9.4
FEMA	-20.2
NASA	-1.1
Small Business Administration	-46.4

Numbers represent the Bush budget's percentage cut in budget authority for appropriated programs for FY2002 below the amount needed, according to CBO, to maintain purchasing power for current services.

Agriculture:

Assistance for Farmers — Even though agriculture received \$27 billion in the past three years in emergency assistance, President Bush's budget provides no additional money for income assistance for farmers, and leaves the baseline for agriculture unchanged. The Administration maintains that a portion of the reserve funds in the President's budget could be used to help farmers, but claims on the reserve funds are likely to exceed the money available. Indeed, the "National Emergency Reserve Fund" holds less than two-thirds of the average amount of emergency aid agriculture has received over the past three years. Natural disasters outside of agriculture and other unforeseen events must also be addressed through this emergency reserve fund.

Army Corps of Engineers:

Army Corps of Engineers — The budget cuts appropriated funding for the Army Corps of Engineers to \$3.9 billion, \$600 billion below last year's level and \$200 million below the 2000 level. The President's level of funding is \$800 million (16.9 percent) below the level needed, according to CBO, to maintain purchasing power at the 2001 level. As part of this cut, the President proposes to "redirect" funding away from recreational harbors and inland waterway segments with low levels of commercial use.

Community Service:

National Service — The budget states that "[v]olunteerism and community service have been a strong and important tradition in America ever since its founding." Yet, the budget's \$733 million in appropriations for the Corporation for National and Community Service for 2002 is \$55 million (7.0 percent) below the level needed, according to CBO, to maintain purchasing power for national service programs at their 2001 level.

Economic Competitiveness:

Export-Import (Ex-Im) Bank of the United States — The Ex-Im Bank provides financing assistance to U.S. exporters and, when necessary, matches foreign subsidies so U.S. companies can compete for business on equal footing (approximately 77 countries provide export credit or subsidies). For 2000, the Ex-Im Bank appropriation of just over \$750 million supported \$15.5 billion in U.S. exports. The budget cuts the Ex-Im Bank's credit subsidy funding 25 percent, a cut of approximately \$220 million from the level CBO estimates is needed to maintain the Ex-Im Bank's activities at the 2001 level. The budget could thus reduce 2002 U.S. exports by up to \$4 billion.

Economic Development:

Economic Development Administration — The Bush budget provides \$335 million for the Economic Development Administration's programs for 2002, which represents a \$96 million (22 percent) cut in purchasing power. The Economic Development Administration provides grants and other financial assistance and offers planning and coordination assistance to help alleviate unemployment and underemployment in economically distressed areas and regions.

Education:

School Renovation Funding — The budget eliminates future funding for school renovation and retroactively allows states to redirect the \$1.2 billion provided for school renovation for 2001 to pay for either special education or technology needs. The 2001 appropriations bill provided most of this funding to help high-poverty local educational agencies pay for emergency school renovation and repair activities.

Housing:

Housing Assistance — The budget slashes over \$1 billion from the \$3.3 billion appropriated in 2001 for programs funding critical repairs and security in the nation's public housing. The Bush budget cuts the Public Housing Capital Fund, which funds major repairs such as fixing leaky roofs and replacing broken elevators, by \$700 million from 2001 levels. The President makes these cuts despite a recent HUD report that found \$22.5 billion in unmet repair needs in public housing. The budget eliminates the \$310 million Public Housing Drug Elimination Program, which funds anti-crime activities and security features in public housing. These cuts undermine bipartisan efforts, embodied in the historic 1998 Quality Housing and Work Responsibility Act, to ensure that the nation's public housing provides a safe and healthy home for low-income seniors and families. Over 40 percent of families living in public housing are elderly or disabled.

Health:

Community Access Program (Health Care for the Uninsured/Underinsured) —

The Bush budget eliminates the community access program (\$125 million annually). This is a grant program for community providers who serve the uninsured/underinsured populations or operate in areas known to have health care access problems. The funds allow these organizations (disproportionate share hospitals (DSH), public hospitals, community health centers, and others) to form consortia/coordinate to better serve people who are uninsured or underinsured.

Justice:

Equal Employment Opportunity Commission — The budget decreases funding for the Equal Employment Opportunity Commission (EEOC) by \$9 million below the level needed to maintain current services. The EEOC enforces federal laws prohibiting employment discrimination on the basis of race, religion, sex, national origin, disability, or age.

Small Business:

Small Business Administration — The Budget slashes the budget of the Small Business Administration (SBA) by more than 40 percent to \$539 million. The budget eliminates funding for the New Markets Venture Capital Program, which provides venture capital and technical assistance to small businesses in less prosperous areas of the country. The budget also eliminates the BusinessLINC Program, which encourages mentoring between large and small businesses. In addition, new fees will be imposed for certain small business loans and for the use of Small Business Development Centers.

These cuts provide just a sampling of the kinds of specific reductions that are likely when fuller details of the President's budget are released in April. The President's tax cut will also undermine the long-term viability of Social Security and Medicare by depleting the resources both programs need to extend their solvency. The Bush budget denies the existence of the Medicare surplus, and thus puts the Medicare surplus into a contingency fund for more tax cuts. The Bush plan also makes available \$600 billion of the Social Security surplus for private accounts even though the Social Security surplus is needed to pay current obligations. These harmful effects will be exacerbated if CBO's ten-year surplus projections turn out to be overly optimistic, as CBO cautions is highly possible. If these surpluses don't materialize and we pass the Bush tax cuts, we will be faced with three unpalatable choices: huge deficits, even deeper cuts in critical programs, or raising taxes.

Democrats support the passage of an \$800 billion tax cut that provides real relief to working families across the country. But we oppose the Bush tax cut because it is so large that it crowds out other vital national priorities like Medicare, Social Security, education, agriculture, and debt reduction.

Discretionary Budget Authority by Major Agency:
President Bush's 2002 Budget vs. CBO Maintaining 2001 Purchasing Power
(discretionary budget authority in billions)

<u>Agency</u>	<u>Maintain 2001</u>		<u>President Bush's 2002</u>		<u>Bush Budget Above/</u>	
	<u>Purchasing</u>	<u>Power</u>	<u>Purchasing</u>	<u>Budget</u>	<u>Purchasing Power Level</u>	<u>Percent</u>
Defense	306.4		310.5		4.1	1.4%
Education	42.7		44.5		1.8	4.2%
Health and Human Services	55.3		56.7		1.4	2.6%
International Affairs Programs*	22.4		23.1		0.7	3.4%
Social Security Administration	6.3		6.4		0.1	2.3%
Veterans Affairs	23.4		23.4		0.0	0.1%
Treasury	14.7		14.7		-0.0	-0.1%
National Science Foundation	4.5		4.5		-0.0	-0.6%
National Aeronautics and Space Administration	14.7		14.5		-0.2	-1.1%
Small Business Administration	0.9		0.5		-0.4	-46.4%
Federal Emergency Management Agency	2.5		2.0		-0.5	-20.2%
Interior	10.5		9.8		-0.7	-7.0%
Environmental Protection Agency	8.1		7.3		-0.8	-9.4%
Corps of Engineers	4.7		3.9		-0.8	-16.9%
Labor	12.2		11.3		-0.9	-7.4%
Commerce	5.8		4.8		-1.0	-16.6%
Energy	20.4		19.0		-1.4	-6.8%
Agriculture	19.6		17.9		-1.7	-8.6%
Justice	21.8		19.9		-1.9	-8.8%
Transportation	19.2		16.3		-2.9	-15.0%
Housing and Urban Development**	34.3		30.4		-3.9	-11.3%

*International Affairs includes all Function 150 programs except P.L. 480 Title II Aid.

**The 2001 level adjusted for receipts expected to be included in CBO's next baseline for comparability to the Bush budget. CBO has estimated these receipts to be \$1.7 billion; OMB estimated these to be \$2.4 billion in the Bush Baseline.

Note: The Bush budget levels are from Table S-6, page 190, of the Bush Budget, "A Blueprint for New Beginnings." The levels in the column titled "Maintain 2001 Purchasing Power" are CBO estimates except as noted for Housing and Urban Development.

Winners and Losers

How Agencies Fare in Bush Budget

